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**South Carolina
Division of General Services**

PROCUREMENT AUDIT AND CERTIFICATION

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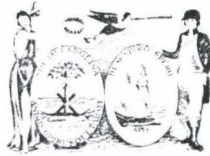
SOUTH CAROLINA DEPARTMENT
DISABILITIES AND SPECIAL NEEDS

AGENCY

JANUARY 1, 1994 - SEPTEMBER 30, 1996

DATE

STATE OF SOUTH CAROLINA
State Budget and Control Board
OFFICE OF GENERAL SERVICES



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1201 MAIN STREET, SUITE 420
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-3880
(803) 737-0592 Fax

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LUTHER F. CARTER
EXECUTIVE DIRECTOR

March 25, 1997

Ms. Helen T. Zeigler, Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Helen:

I have attached the South Carolina Department of Disabilities and Special Needs procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Department a three year certification as noted in the audit report.

Sincerely,

R. Voight Shealy

R. Voight Shealy
Materials Management Officer

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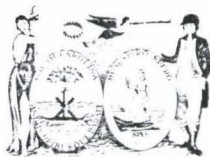
**SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS
PROCUREMENT AUDIT REPORT**

JANUARY 1, 1994 - SEPTEMBER 30, 1996

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LUTHER F. CARTER
EXECUTIVE DIRECTOR

January 29, 1997

Mr. R. Voight Shealy
Materials Management Officer
Office of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have examined the procurement policies and procedures of the South Carolina Department of Disabilities and Special Needs for the period January 1, 1994 through September 30, 1996. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.

The evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the South Carolina Department of Disabilities and Special Needs is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance

of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions, as well as our overall examination of procurement policies and procedures, were conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe need correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the South Carolina Department of Disabilities and Special Needs in compliance with the South Carolina Consolidated Procurement Code and ensuing Regulations.

Sincerely,



Larry G. Sorrell, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina Department of Disabilities and Special Needs. Our on-site review was conducted December 6, 1996 through January 2, 1997 and was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying Regulations.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing Regulations.

Additionally, our work was directed toward assisting the Department in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State
- (2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process

BACKGROUND

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The Budget and Control Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The Division of General Services shall review the respective governmental body's internal procurement operation, shall verify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the Board those dollar limits for the respective governmental body's procurement not under term contract.

On May 10, 1994, the Budget and Control Board granted the Department the following procurement certifications:

<u>Category</u>	<u>Limit</u>
Pharmaceutical Drugs	\$1,000,000 total annual contract(s)
Goods and Services	\$ 100,000 per commitment
Information Technology in accordance with the approved Information Technology Plan	\$ 100,000 per commitment
Consultants Services	\$ 100,000 per commitment
Construction Services	\$ 250,000 per commitment

Our audit was performed primarily to determine if recertification is warranted.

The Department has requested the following certifications:

<u>Procurement Areas</u>	<u>Recommended Certification Limits</u>
Pharmaceutical Drugs	\$1,000,000 total annual contract(s)
Pharmaceutical Services	\$1,000,000 total annual contract(s)
Goods and Services	\$ 100,000 per purchase commitment
Information Technology in accordance with the approved Information Technology Plan	\$ 100,000 per purchase commitment
Consultants Services	\$ 100,000 per purchase commitment
Construction Services	\$ 250,000 per purchase commitment

SCOPE

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina Department of Disabilities and Special Needs and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We selected judgmental samples for the period July 1, 1994 through September 30, 1996 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically, the scope of our audit included, but was not limited to, a review of the following.

- (1) All sole source, emergency and trade-in sale procurements for the period January 1, 1994 through September 30, 1996
- (2) Procurement transactions from the period July 1, 1994 through September 30, 1996 as follows:
 - a) One hundred seventy-six procurements and payments, each exceeding \$1,500
 - b) Block samples of 250 sequential purchase orders reviewed for order splitting and favored vendors
 - c) Twenty additional bids/quotes reviewed for Code compliance
- (3) Four professional service contracts and sixteen construction contracts for permanent improvement projects for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Plans and reports for the audit period
- (5) Information technology plans for audit period
- (6) Internal procurement procedures manual
- (7) Surplus property procedures
- (8) Real property lease approvals

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the South Carolina Department of Disabilities and Special Needs, hereinafter referred to as the Department, produced findings and recommendations as follows.

	<u>PAGE</u>
I. <u>Compliance-General</u>	
A. <u>Unauthorized Construction Change Order</u>	7
Work was performed and payment was made prior to approval of the change order.	
B. <u>Written Quotations and Bid Not Advertised</u>	7
Six written quotations and one sealed bid were not advertised as required.	
C. <u>Tabulation Sheets Not Signed or Witnessed</u>	8
Bid tabulations are not signed by the bid opener or the witness.	
II. <u>Compliance-Sole Source</u>	9
Three exempt software license renewals were procured as sole source procurements.	
III. <u>Inappropriate Invoice Payments Made</u>	9
Inappropriate payments were made on three vouchers resulting in over payments of \$622.27.	
IV. <u>Drug-Free Workplace Certification</u>	10
Three contracts did not have the Drug-Free Workplace Certification.	
V. <u>Construction Documentation</u>	11
The Department could not locate two items relating to construction projects.	

RESULTS OF EXAMINATION

I. Compliance-General

A. Unauthorized Construction Change Order

Change order number two in the amount of \$6,810 for project J16-9665 was approved on December 2, 1996. The change order on the application for payment number two was dated September 5, 1996 as partially complete. Application number two was paid in full on voucher 385872 dated September 16, 1996. Regulation 19-445.2015 defines an unauthorized procurement as "an act obligating the State in a contract by any person without the requisite authority to do so by an appointment or delegation under the Procurement Code." Under Section 11-35-1210, the Budget and Control Board has delegated authority for construction purchases up to \$250,000 to the Department. However, since the Department did not approve the change order until after the work had been performed and paid, the change was unauthorized.

We recommend a ratification of the unauthorized procurement for the change order be requested from the Department's Executive Director. The Department needs to review applications for payments more carefully to ensure that all work performed is authorized.

Department Response

The consulting architect for this project approved the pay request and forwarded it to DDSN for payment. During the review process, it was not noticed that the change order was included on the request and it was approved for payment. All DDSN staff members involved with these type procurements have been cautioned regarding this incident and instructed to make an extra effort to carefully review the documentation on all request for payments in the future. This procurement has been ratified by the appropriate authorities.

B. Written Quotations and Bid Not Advertised

We noted five sealed quotes and one bid that were not advertised in the South Carolina Business Opportunities publication.

<u>Quote/ bid Number</u>	<u>Award Amount</u>	<u>Description</u>
3-679-97 (Q)	\$13,556	Wheelchairs
C-1-668-96 (Q)	11,600	Baseline training services
6-665-96 (Q)	11,210	Assistive technology equipment
4-656-96 (Q)	17,510	Chillers
4-651-96 (Q)	13,651	Shuttle vehicle
4-666-96	27,489	Medical beds

Section 11-35-1550 (2) (d) of the Code requires that procurements between \$10,000 and \$25,000 be advertised in the South Carolina Business Opportunities. Section 11-35-1550 (4) requires the advertisement in the South Carolina Business Opportunities for competitive procurements greater than \$25,000. These procurements appeared to be rush orders caused by the requisitioning department not giving purchasing sufficient lead time.

We recommend the Department advertise all competitive solicitations greater than \$10,000. If time does not permit advertisement, an emergency procurement may be necessary.

Department Response

Quotes identified were processed using seven to ten day opening which was at the request of the users. SCBO ads were not placed because it was felt that the turn around time of the quotes would not allow vendors to receive and respond by opening date. In every case, quotes were forwarded to more than the minimum sources required. In the future, DDSN will advertise in SCBO.

C. Tabulation Sheets Not Signed or Witnessed

The Department does not require officials who open bids and witness bid openings to sign the bid tabulation sheets. Section 11-35-1520 (6) of the Code states in part, "Bids shall be opened publicly in the presence of one or more witnesses at the time and place designated in the invitation for bids and in the manner prescribed by regulation of the board." Since the bid tabulations are not signed, the Department cannot document compliance with this section. Accordingly, we recommend that all sealed bid tabulations be signed by the bid opener and the witness.

Department Response

As a matter of procedure, DDSN is in compliance with Section 11-35-1520 (6). Bids are opened publicly in the presence of two or more DDSN procurement staff witnesses who open and record sealed bids. However, signatures were not required to document witnesses. Audit and Certification recommendation to have witnesses sign tabulation sheet will become a function of the sealed bid opening procedures.

II. Compliance-Sole Source

The following three software license renewals were sole sourced unnecessarily.

<u>Purchase Order</u>	<u>Amount</u>	<u>Quarter Reported</u>
110010877-6	\$28,560	07/95 - 09/95
110010789-6	6,835	07/95 - 09/95
110008225-4	79,103	04/94 - 06/94

On April 22, 1986, the South Carolina Budget and Control Board approved an exemption for software license renewals. We recommend the Department discontinue sole sourcing exempt items.

Department Response

Sole sources for software renewal purchases were reported in error. After further examination, DDSN now recognizes that these procurements could have been obtained via an exemption classification. DDSN will utilize the exemption classification on future software transactions.

III. Inappropriate Invoice Payments Made

We noted three instances where inappropriate payments were made by accounts payable.

<u>Voucher</u>	<u>PO Date</u>	<u>Purchase Order</u>	<u>Overpayment</u>	<u>Description</u>
288698	09/12/94	915488	\$ 47.20	Scalp treatment
303210	11/01/94	310000561-5	226.07	Filing system
296301	08/16/94	610009992-5	<u>349.00</u>	Recliner
			Total	<u>\$622.27</u>

Purchase order 915488 was for 600 gallons of scalp treatment at \$11.80 per gallon. Receiving documents indicated that only 596 gallons were received. The invoice for the

entire 600 gallons was paid resulting in an overpayment of \$47.20 (4 gallons x \$11.80 per gallon).

Purchase order 310000561-5 was to furnish, deliver and install a mobile filing system with freight prepaid. The invoice included shipping charges plus taxes totaling \$226.07.

Purchase order 610009992-5 was for furniture that included a recliner. The invoice included the cost for the recliner of \$349.00 that was not received per the receiving documents.

We recommend accounts payable monitor vendor invoices, receiving reports and purchase orders more closely to ensure that payments are made correctly. Any discrepancies between invoices, receiving reports and purchase orders should be routed to the procurement office for resolution prior to payment. Further, we recommend the Department request refunds for the over paid amounts.

Department Response

Three test invoices were noted as having inappropriate payments made. A full refund for the recliner invoice has been received by DDSN. Refunds have been requested for the other two invoices which were paid in error. DDSN accounts payable staff will monitor vendor invoices, receiving information and purchase order information closely.

IV. Drug Free Workplace Act

The Department did not have the drug free workplace certification on the following contracts.

<u>Purchase Order</u>	<u>Amount</u>	<u>Description</u>
110008061-4	\$127,817	Communications processor
110008225-4	79,103	Microstation licenses
110010861-6	71,932	Fire inspections

Section 44-107-30 of the Code of Laws states, "No person, other than an individual, may receive a domestic grant or be awarded a domestic contract for the procurement of any goods,

construction or services for a stated or estimated value of \$50,000 or more from any state agency unless the person has certified to the using agency that it will provide a drug-free workplace....” We recommend the Department ensure future compliance with the requirements of Section 44-107-30.

Department Response

As an oversight on the three contracts noted, Drug Free Affidavits were not obtained. DDSN will obtain Drug Free Affidavits as required on all future contracts when applicable.

V. Construction Documentation

The Department could not provide the intent to award for project J16-9688 for Hillside reroof and the bid and bid security of the low bidder for project J16-9622 for Midlands upgrade. Each project was within the Department’s certification. It is very important that the Department maintain complete files for projects to document compliance with the code. We recommend the Department exercise caution in the future to ensure that all required items are maintained in the files.

Department Response

The issuance of an Intent to Award is normal procedure in the construction procurement process. However, on the project noted the documentation could not be located in the file. DDSN Engineering staff has initiated a checklist to identify required documents and to insure that all documentation is complete and made part of the procurement file. The usual procedure at bid opening, when consultants are used, is for the consultant to use the bid documents to develop the certified bid tabulation. The consultant then returns the bid documents for DDSN’s records. In the case of the project cited, the documents were not returned, and when requested they could not be found. DDSN staff has implemented a new procedure to give the consultants copies of the bid information and Engineering will retain the original documents.

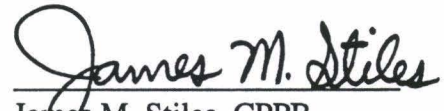
CERTIFICATION RECOMMENDATIONS

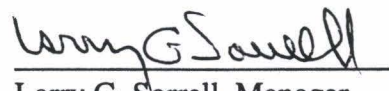
As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place the South Carolina Department of Disabilities and Special Needs in compliance with the South Carolina Consolidated Procurement Code.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend the South Carolina Department of Disabilities and Special Needs be recertified to make direct agency procurements for three years up to the limits as follows.

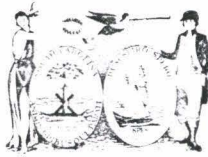
<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
Pharmaceutical Drugs	*\$1,000,000 total annual contract(s)
Pharmaceutical Services	*\$1,000,000 total annual contract(s)
Goods and Services	*\$ 100,000 per purchase commitment
Information Technology in accordance with the approved Information Technology Plan	*\$ 100,000 per purchase commitment
Consultants Services	*\$ 100,000 per purchase commitment
Construction Services	*\$ 250,000 per purchase commitment

*This means the total potential purchase commitment to the State whether single year or multi-term contracts are used.


James M. Stiles, CPPB
Audit Manager


Larry G. Sorrell, Manager
Audit and Certification

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LUTHER F. CARTER
EXECUTIVE DIRECTOR

March 25, 1997

Mr. R. Voight Shealy
Materials Management Officer
Materials Management Office
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have reviewed the response from the South Carolina Department of Disabilities and Special Needs to our audit report for the period of January 1, 1994 - September 30, 1996. Also we have followed the Department's corrective action during and subsequent to our field work. We are satisfied that the Department's has corrected the problem areas and the internal controls over the procurement system are adequate.

Therefore, we recommend the Budget and Control Board grant the South Carolina Department of Disabilities and Special Needs certification limits noted in our report for period of three years.

Sincerely,

A handwritten signature in cursive script, reading "Larry G. Sorrell".

Larry G. Sorrell, Manager
Audit and Certification

LGS/tl

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